FINANCIAL MARKET

What is a Money Market?

- ✓ The **money market** refers to the short-term financial market. It meets the needs for funds for a period of **up to 364 days** (i.e., short-term).
- ✓ Money markets play an important role in providing a channel for equilibrating short-term demand for and supply of funds, thus facilitating the conduct of monetary policy.
- ✓ It enables the **raising of short-term funds** to meet temporary cash shortages and obligations, as well as the temporary deployment of excess funds to earn returns.
- ✓ The Reserve Bank of India (RBI), Commercial Banks, Non-Banking Finance Companies, State Governments, Large Corporate Houses, and Mutual Funds are the major participants in the market.
- ✓ The **money market instruments** commonly used are: call money, certificates of deposit, treasury bills, other short-term government securities transactions, bankers' acceptances/commercial bills, commercial paper, and inter-corporate funds.

Instruments of Money Market

1. Treasury Bills

- ✓ A Treasury bill is essentially a **short-term borrowing instrument** issued by the Government of India that matures in less than a year.
- ✓ They are also known as **Zero-Coupon Bonds**, and they are issued on behalf of the Central Government by the Reserve Bank of India to meet its short-term funding needs.
- ✓ Treasury bills take the form of a **promissory note**. They are highly liquid, have a guaranteed yield, and have a low risk of default.
- ✓ They are issued at a lower price than their face value and repaid at the same price.
- ✓ **The difference between the price at which treasury bills are issued and their redemption value is the interest receivable on them, and it is referred to as the discount.**
- ✓ Treasury bills are available for a minimum purchase price of Rs. 25000 and in multiples thereof.

Example:

- ✓ Assume an investor pays Rs. 96,000 for a 91-day Treasury bill with a face value of Rs. 100,000.
- ✓ The investor receives Rs. 100,000 for holding the bill until it matures.
- ✓ The difference of Rs. 4,000 between the proceeds received at maturity and the amount paid to purchase the bill represents the interest he received.

2. Commercial Paper

- ✓ Commercial paper is a short-term **unsecured promissory note** with a **fixed maturity period** that is negotiable and transferable by endorsement and delivery.
- ✓ It is issued by large and creditworthy companies in order to raise short-term funds at lower interest rates than the market.
- ✓ It usually matures between 15 days and a year.
- ✓ Commercial paper is a viable alternative to bank borrowing for large corporations that are usually considered to be financially strong.

- ✓ It is purchased at a discount and redeemed at face value.
- ✓ Commercial paper was created to provide short-term funds for seasonal and working capital needs. Companies use this instrument for **bridge financing.**

Example:

- ✓ Assume a company requires long-term financing to purchase some machinery.
- ✓ To raise long-term funds in the capital market, the company must incur **floatation costs** (costs associated with floating an issue include brokerage, commission, the printing of applications, and advertising, among other things).
- ✓ Commercial paper proceeds are used to cover floatation costs. This is referred to as **Bridge Financing.**

3. Call Money

- ✓ Call money is a type of short-term finance that is repayable on demand and has a maturity period ranging from one day to fifteen days. It is used for **inter-bank transactions.**
- ✓ Commercial banks are required to keep a minimum cash balance, known as the **cash reserve ratio.**
- ✓ The Reserve Bank of India modifies the cash reserve ratio on a regular basis, which affects the number of funds available for lending by commercial banks.
- ✓ Call money is a method for banks to borrow from one another in order to maintain the cash reserve ratio.
- ✓ The **call rate** is the interest rate paid on call money loans. It is a highly volatile rate that fluctuates from day to day, and sometimes even hour to hour.
- ✓ Call rates have an **inverse relationship** with other short-term money market instruments such as certificates of deposit and commercial paper.
- ✓ When call money rates rise, other sources of finance, such as commercial paper and certificates of deposit, become less expensive in comparison, allowing banks to raise funds from these sources.

4. Certificate of Deposit

- ✓ **Certificates of deposit (CD)** are unsecured, negotiable, short-term instruments in bearer form that are issued by **commercial banks** and **development financial institutions**.
- ✓ They can be issued to individuals, corporations, and businesses during times of tight liquidity, when bank deposit growth is slow but credit demand is high.
- ✓ They aid in the **mobilization of large sums of money** for short periods of time.

5. Commercial Bill

- ✓ A commercial bill is a **bill of exchange** used to finance a company's working capital needs.
- ✓ It is a short-term, negotiable, self-liquidating instrument used to fund credit sales of firms.
- ✓ When goods are sold on credit, the buyer becomes obligated to make payment on a future date.
- ✓ The seller could either wait until the specified date or use a bill of exchange.
- ✓ The bill is drawn by the seller (drawer) of the goods and accepted by the buyer (drawee).
- ✓ When a bill is accepted, it becomes a marketable instrument known as a **trade bill**.
- ✓ If the seller requires funds before the bill matures, these bills can be discounted with a bank.
- ✓ A **commercial bill** is created when a trade bill is accepted by a commercial bank.

Functions of Money Market

- ✓ Through financial transactions, money markets **maintain an equilibrium between the demand and supply of money** and short-term funds.
- ✓ It **promotes economic growth** by ensuring the availability of funds to various sectors of the economy such as industry, agriculture, and service sector, among others.
- ✓ The money market **provides sufficient finance to trade and industry**, as well as a platform for discounting bills of exchange for them.
- ✓ **The money market allows the Reserve Bank of India (RBI) to implement monetary policy.**
- ✓ It **assists the government** in financing its deficits through non-inflationary means. Treasury bills are issued by the government to raise funds for short-term loans.
- ✓ It enables the **allocation of short-term funds** via money market instruments and interbank transactions.

Importance of Money Market

- ✓ The money market is more important in the financing industry, financing trade, bank self-sufficiency, and effective monetary policy implementation.
- ✓ The money market **promotes economic growth** and assists the government in **allocating resources** effectively.

Limitations of Money Market

1. **Absence of Integration**
   - ✓ The Indian money market is divided into two sectors: organized and unorganized.
   - ✓ The legal financial institutions backed by the RBI are part of the organized sector whereas various institutions such as indigenous bankers, village money lenders, and traders are included in the unorganized sector.
   - ✓ There is a **lack of integration** between these two segments.
2. **Variable interest rates**
   - ✓ Variable interest rates exist in the Indian money market, particularly among banks. These **rates differ for lending, borrowing, and government activities**.
   - ✓ Investors are perplexed by the abundance of interest rates.
3. **Inadequate Funds or Resources**
   - ✓ Due to the seasonal nature of the Indian economy, financial resources are frequently in short supply.
   - ✓ **People's lower income, lower savings, and lack of banking habits** are some of the reasons for this.
4. **Shortage of Investment Instruments**
   - ✓ Various investment instruments such as Treasury Bills, Commercial Bills, Certificates of Deposit, Commercial Papers, and so on are used in the Indian money market.
   - ✓ However, given the **size of the population and market,** these instruments are insufficient.
5. **Shortage of Commercial Bills**
   - ✓ It has been observed that in the Indian money market, where many banks keep large sums of money for liquidity purposes, the use of commercial bills is extremely limited.
   - ✓ Similarly, because a **large number of transactions are preferred in cash**, the scope for commercial bills is limited.

Lack of a Systematized Banking System

Despite the fact that India has a vast network of commercial banks, the banking system suffers from major flaws such as **NPAs, massive losses, and inefficient operations.**

Fewer Dealers

- ✓ There are fewer short-term asset dealers who can act as intermediaries between the government and the banking system.
- ✓ The lower the number of dealers, the slower the contact between the end lender and end borrowers.

Conclusion

- ✓ The money market provides the government with non-inflationary sources of funding.
- ✓ Short-term loans can be raised by issuing treasury bills. However, this does not result in price increases.
- ✓ The term "money market" refers to all organizations and institutions that deal with or facilitate dealings in short-term debt instruments.
- ✓ These institutions include the Reserve Bank of India, commercial banks, cooperative banks, non-banking financial companies such as LIC, GIG, and UTI, as well as special institutions such as the Discount and Finance House of India (DFHI).

What is a Capital Market?

Capital Market may be defined as a market dealing in medium and long-term funds. It is an institutional arrangement for borrowing medium and long-term funds and provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue various securities such as shares debentures, bonds, etc. In the present chapter let us discuss about the market for trading of securities.

The market where securities are traded is known as Securities market. It consists of two different segments namely primary and secondary market. The primary market deals with new or fresh issue of securities and is, therefore, also known as new issue market; whereas the secondary market provides a place for purchase and sale of existing securities and is often termed as stock market or stock exchange.

Primary Market

The Primary Market consists of arrangements, which facilitate the procurement of longterm funds by companies by making fresh issue of shares and debentures. You know that companies make fresh issue of shares and/or debentures at their formation stage and, if necessary, subsequently for the expansion of business.

It is usually done through private placement to friends, relatives and financial institutions or by making public issue. In any case, the companies have to follow a well-established legal procedure and involve a number of intermediaries such as underwriters, brokers, etc. who form an integral part of the primary market. You must have learnt about many initial public offers (IPOs) made recently by a number of public sector undertakings such as ONGC, GAIL, NTPC and the private sector companies like Tata Consultancy Services (TCS), Biocon, Jet-Airways and so on.

Secondary Market

The secondary market known as stock market or stock exchange plays an equally important role in mobilising long-term funds by providing the necessary liquidity to holdings in shares and debentures. It provides a place where these securities can be encashed without any difficulty and delay. It is an organised market where shares, and debentures are traded regularly with high degree of transparency and security. In fact, an active secondary market facilitates the growth of primary market as the investors in the primary market are assured of a continuous market for liquidity of their holdings.

The major players in the primary market are merchant bankers, mutual funds, financial institutions, and the individual investors; and in the secondary market you have all these and the stockbrokers who are members of the stock exchange who facilitate the trading. After having a brief idea about the primary market and secondary market let see the difference between them.

Stock Exchange

A stock exchange is generally organised as an association, a society or a company with a limited number of members. It is open only to these members who act as brokers for the buyers and sellers. The Securities Contract (Regulation) Act has defined stock exchange as an " association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities".

The main characteristics of a stock exchange are:

1. It is an organised market.
2. It provides a place where existing and approved securities can be bought and sold easily.
3. In a stock exchange, transactions take place between its members or their authorised agents.
4. All transactions are regulated by rules and by laws of the concerned stock exchange.
5. It makes complete information available to public in regard to prices and volume of transactions taking place every day.

It may be noted that all securities are not permitted to be traded on a recognised stock exchange. It is allowed only in those securities (called listed securities) that have been duly approved for the purpose by the stock exchange authorities. The method of trading now-a-days, however, is quite simple on account of the availability of on-line trading facility with the help of computers. It is also quite fast as it takes just a few minutes to strike a deal through the brokers who may be available close by. Similarly, on account of the system of scrip-less trading and rolling settlement, the delivery of securities and the payment of amount involved also take very little time, say, 2 days.

Functions of a Stock Exchange

The functions of stock exchange can be enumerated as follows:

1. **Provides ready and continuous market :** By providing a place where listed securities can be bought and sold regularly and conveniently, a stock exchange ensures a ready and continuous market for various shares, debentures, bonds and government securities. This lends a high degree of liquidity to holdings in these securities as the investor can encash their holdings as and when they want.

2. **Provides information about prices and sales :** A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media. In fact, now-a-days, you can get information about minute to minute movement in prices of selected shares on TV channels like CNBC, Zee News, NDTV and Headlines Today. This enables the investors in taking quick decisions on purchase and sale of securities in which they are interested. Not only that, such information helps them in ascertaining the trend in prices and the worth of their holdings. This enables them to seek bank loans, if required.

3. **Provides safety to dealings and investment :** Transactions on the stock exchange are conducted only amongst its members with adequate transparency and in strict conformity to its rules and regulations which include the procedure and timings of delivery and payment to be followed. This provides a high degree of safety to dealings at the stock exchange. There is little risk of loss on account of non-payment or non-delivery. Securities and Exchange Board of India (SEBI) also regulates the business in stock exchanges in India and the working of the stock brokers. Not only that, a stock exchange allows trading only in securities that have been listed with it; and for listing any security, it satisfies itself about the genuineness and soundness of the company and provides for disclosure of certain information on regular basis. Though this may not guarantee the soundness and profitability of the company, it does provide some assurance on their genuineness and enables them to keep track of their progress.

4. **Helps in mobilisation of savings and capital formation :** Efficient functioning of stock market creates a conducive climate for an active and growing primary market. Good performance and outlook for shares in the stock exchanges imparts buoyancy to the new issue market, which helps in mobilising savings for investment in industrial and commercial establishments. Not only that, the stock exchanges provide liquidity and profitability to dealings and investments in shares and debentures. It also educates people on where and how to invest their savings to get a fair return. This encourages the habit of saving, investment and risk-taking among the common people. Thus, it helps mobilising surplus savings for investment in corporate and government securities and contributes to capital formation.

5. **Barometer of economic and business conditions :** Stock exchanges reflect the changing conditions of economic health of a country, as the shares prices are highly sensitive to changing economic, social and political conditions. It is observed that during the periods of economic prosperity, the share prices tend to rise. Conversely, prices tend to fall when there is economic stagnation and the business activities slow down as a result of depressions. Thus, the intensity of trading at stock exchanges and the corresponding rise on fall in the prices of securities reflects the investors' assessment of the economic and business conditions in a country, and acts as the barometer which indicates the general conditions of the atmosphere of business.

6. **Better Allocation of funds :** As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises and they avail of the greater potential for growth. Financial resources of the economy are thus, better allocated.

Advantages of Stock Exchanges

Having discussed the functions of stock exchanges, let us look at the advantages which can be outlined from the point of view of
(a) Companies,
(b) Investors, and
(c) the Society as a whole.

(a) To the Companies

(i) The companies whose securities have been listed on a stock exchange enjoy a better goodwill and credit-standing than other companies because they are supposed to be financially sound.
(ii) The market for their securities is enlarged as the investors all over the world become aware of such securities and have an opportunity to invest
(iii) As a result of enhanced goodwill and higher demand, the value of their securities increases and their bargaining power in collective ventures, mergers, etc. is enhanced.
(iv) The companies have the convenience to decide upon the size, price and timing of the issue.

(b) To the Investors

(i) The investors enjoy the ready availability of facility and convenience of buying and selling the securities at will and at an opportune time.
(ii) Because of the assured safety in dealings at the stock exchange the investors are free from any anxiety about the delivery and payment problems.
(iii) Availability of regular information on prices of securities traded at the stock exchanges helps them in deciding on the timing of their purchase and sale.
(iv) It becomes easier for them to raise loans from banks against their holdings in securities traded at the stock exchange because banks prefer them as collateral on account of their liquidity and convenient valuation.

(c) To the Society

(i) The availability of lucrative avenues of investment and the liquidity thereof induces people to save and invest in long-term securities. This leads to increased capital formation in the country.
(ii) The facility for convenient purchase and sale of securities at the stock exchange provides support to new issue market. This helps in promotion and expansion of industrial activity, which in turn contributes, to increase in the rate of industrial growth.
(iii) The Stock exchanges facilitate realisation of financial resources to more profitable and growing industrial units where investors can easily increase their investment substantially.
(iv) The volume of activity at the stock exchanges and the movement of share prices reflect the changing economic health.
(v) Since government securities are also traded at the stock exchanges, the government borrowing is highly facilitated. The bonds issued by governments, electricity boards, municipal corporations and public sector undertakings (PSUs) are found to be on offer quite frequently and are generally successful.

Limitations of Stock Exchanges

Like any other institution, the stock exchanges too have their limitations. One of the common evils associated with stock exchange operations is the excessive speculation. You know that speculation implies buying or selling securities to take advantage of price differential at different times. The speculators generally do not take or give delivery and pay or receive full payment.

They settle their transactions just by paying the difference in prices. Normally, speculation is considered a healthy practice and is necessary for successful operation of stock exchange activity. But, when it becomes excessive, it leads to wide fluctuations in prices and various malpractices by the vested interests. In the process, genuine investors suffer and are driven out of the market.

Another shortcoming of stock exchange operations is that security prices may fluctuate due to unpredictable political, social and economic factors as well as on account of rumours spread by interested parties. This makes it difficult to assess the movement of prices in future and build appropriate strategies for investment in securities. However, these days good amount of vigilance is exercised by stock exchange authorities and SEBI to control activities at the stock exchange and ensure their healthy functioning, about which you will study later.

Stock Exchanges In India

The first organised stock exchange in India was started in Mumbai known as Bombay Stock Exchange (BSE). It was followed by Ahmedabad Stock Exchange in 1894 and Kolkata Stock Exchange in 1908. The number of stock exchanges in India went upto 7 by 1939 and it increased to 21 by 1945 on account of heavy speculation activity during Second World War. A number of unorganised stock exchanges also functioned in the country without any formal set-up and were known as kerb market.

The Security Contracts (Regulation) Act was passed in 1956 for recognition and regulation of Stock Exchanges in India. At present we have 23 stock exchanges in the country. Of these, the most prominent stock exchange that came up is National Stock Exchange (NSE). It is also based in Mumbai and was promoted by the leading financial institutions in India. It was incorporated in 1992 and commenced operations in 1994. This stock exchange has a corporate structure, fully automated screen-based trading and nationwide coverage.

Another stock exchange that needs special mention is Over The Counter Exchange of India (OTCEI). It was also promoted by the financial institutions like UTI, ICICI, IDBI, IFCI, LIC etc. in September 1992 specially to cater to small and medium sized companies with equity capital of more than Rs.30 lakh and less than Rs.25 crore. It helps entrepreneurs in raising finances for their new projects in a cost effective manner. It provides for nation-wide online ringless trading with 20 plus representative offices in all major cities of the country.

On this stock exchange, securities of those companies can be traded which are exclusively listed on OTCEI only. In addition, certain shares and debentures listed with other stock exchanges in India and the units of UTI and other mutual funds are also allowed to be traded on OTCEI as permitted securities. It has been noticed that, of late, the turnover at this stock exchange has considerably reduced and steps have been afoot to revitalise it. In fact, as of now, BSE and NSE are the two Stock Exchanges, which enjoy nation-wide coverage and handle most of the business in securities in the country.

Regulations Of Stock Exchanges

As indicated earlier, the stock exchanges suffer from certain limitations and require strict control over their activities in order to ensure safety in dealings thereon. Hence, as early as 1956, the Securities Contracts (Regulation) Act was passed which provided for recognition of stock exchanges by the central Government. It has also the provision of framing of proper bylaws by every stock exchange for regulation and control of their functioning subject to the approval by the Government.

All stock exchanges are required to submit information relating to its affairs as required by the Government from time to time. The Government was given wide powers relating to listing of securities, make or amend bylaws, withdraw recognition to, or supersede the governing bodies of stock exchange in extraordinary/abnormal situations. Under the Act, the Government promulgated the Securities Regulations (Rules) 1957, which provided inter alia for the procedures to be followed for recognition of the stock exchanges, submission of periodical returns and annual returns by recognised stock exchanges, inquiry into the affairs of recognised stock exchanges and their members, and requirements for listing of securities.

Role Of SEBI

As part of economic reforms programme started in June 1991, the Government of India initiated several capital market reforms, which included the abolition of the office of the Controller of Capital Issues (CCI) and granting statutory recognition to Securities Exchange Board of India (SEBI) in 1992 for:

(a) protecting the interest of investors in securities;

(b) promoting the development of securities market;

(c) regulating the securities market and

(d) matters connected therewith or incidental thereto.

SEBI has been vested with necessary powers concerning various aspects of capital market such as:

(i) regulating the business in stock exchanges and any other securities market;

(ii) registering and regulating the working of various intermediaries and mutual funds;

(iii) promoting and regulating self regulatory organisations;

(iv) promoting investors education and training of intermediaries;

(v) prohibiting insider trading and unfair trade practices;

(vi) regulating substantial acquisition of shares and take over of companies;

(vii) calling for information, undertaking inspection, conducting inquiries and audit of stock exchanges, and intermediaries and self regulation organisations in the stock market; and

(viii) performing such functions and exercising such powers under the provisions of the Capital Issues (Control) Act, 1947 and the Securities Contracts (Regulation) Act, 1956 as may be delegated to it by the Central Government.

As part of its efforts to protect investors' interests, SEBI has initiated many primary market reforms, which include improved disclosure standards in public issue documents, introduction of prudential norms and simplification of issue procedures. Companies are now required to disclose all material facts and risk factors associated with their projects while making public issue. All issue documents are to be vetted by SEBI to ensure that the disclosures are not only adequate but also authentic and accurate.

SEBI has also introduced a code of advertisement for public issues for ensuring fair and truthful disclosures. Merchant bankers and all mutual funds including UTI have been brought under the regulatory framework of SEBI. A code of conduct has been issued specifying a high degree of responsibility towards investors in respect of pricing and premium fixation of issues. To reduce cost of issue, underwriting of issues has been made optional subject to the condition that the issue is not under-subscribed.

In case the issue is under-subscribed i.e., it was not able to collect 90% of the amount offered to the public, the entire amount would be refunded to the investors. The practice of preferential allotment of shares to promoters at prices unrelated to the prevailing market prices has been stopped and private placements have been made more restrictive. All primary issues have now to be made through depository mode. The initial public offers (IPOs) can go for book building for which the price band and issue size have to be disclosed. Companies with dematerialised shares can alter the par value as and when they so desire.

As for measures in the secondary market, it should be noted that all statutory powers to regulate stock exchanges under the Securities Contracts (Regulation) Act have now been vested with SEBI through the passage of securities law (Amendment) Act in 1995. SEBI has duly notified rules and a code of conduct to regulate the activities of intermediaries in the securities market and then registration in the securities market and then registration with SEBI is made compulsory.

It has issued guidelines for composition of the governing bodies of stock exchanges so as to include more public representatives. Corporate membership has also been introduced at the stock exchanges. It has notified the regulations on insider trading to protect and preserve the integrity of stock markets and issued guidelines for mergers and acquisitions. SEBI has constantly reviewed the traditional trading systems of Indian stock exchanges and tried to simplify the procedure, achieve transparency in transactions and reduce their costs.

To prevent excessive speculations and volatility in the market, it has done away with badla system, and introduced rolling settlement and trading in derivatives. All stock exchanges have been advised to set-up clearing corporation / settlement guarantee fund to ensure timely settlements. SEBI organises training programmes for intermediaries in the securities market and conferences for investor education all over the country from time to time.

National Stock Exchange Of India (NSEI)

National Stock Exchange of India was recognised in 1992 and started working in 1994. Ringless trading takes place in NSEI i.e., the trading of securities takes place through network of computers. NSEI provide a nationwide transparent market for different types of securities.

Objective of NSEI

1. To provide a nationwide transparent market for all types of securities.

2. To ensure access to investors all over the country through an appropriate communication network.

3. To provide an efficient securities market using electronic trading systems.

4. To make available shorter settlement cycles and book entry settlement system.

5. To meet international standards.

Trading Procedure on a Stock Exchange

Now-a-days trading of securities has shifted from the floor of a stock exchange to the broker's office. Securities are bought and sold with the help of brokers who are members of a stock exchange. They act as intermediaries between buyers and sellers of securities.
Companies have to get their securities listed in the stock exchange for the purpose of trading through stock exchange. Trading procedure involves the following steps :

1. **Selection of Broker :** Firstly, investor chooses the broker through whom he will buy or sell the securities.
2. **Placement of Order :** After fixing the broker, the investor places the order stating the name of the company, number of shares to be bought or sold the price at which the transaction has to be made.
3. **Trade by the Broker :** Broker makes the deal if the desired price is quoted by any buyer/seller in his computer. Transactions on a stock exchange can be on cash basis or carryover basis (badla).
4. **Information to Investor :** The broker informs the investor about the deal. The buyer makes arrangement for payment.
5. **Settlement :** All transactions are settled through the clearing house through electronic book entry.

Depository Services

The Depositories Act 1996 introduced the depository service system in India. Under the depository system, physical securities are converted into electronic form thrugh the process of dematerialization.

The constituents of the depository system are :

1. Depository	2. Depository Participants (DP)
3. Issuing Company	4. Investors

Depository is like a bank in which an investor can deposit and withdraw his shares. Depository Participant (DP) is an agent of the depository. Investors interact only with DPs. Any financial institution can become DP after registration with SEBI. The company whose shares are to be transacted in electronic form must be registered with a depository.

Investors who want to get securities in electronic form opens a Demat Account. Demat account is the abbreviation of dematerialised account. Demat account refers to an account which an Indian citizen must open with the DPs to trade in listed securities in electronic form. From this account one can hold shares of various companies in the dematerialised/electronic form. The services provided by a depository are termed as 'Depository Services'. The name of two depositories in India are NSDL and CDSL. [National Securities Depository Ltd. and Central Depository Services Ltd.].

Services provided by Depository

1. Dematerialisation (demat) that is converting physical certificates to electronic form.
2. Rematerialisation (remat) that is getting physical certificates from the electroic securities. This is the reverse of demat.
3. Transfer of securities.
4. Settlement of trade.

Working of Depository System

Investor must submit Demat Request Form (DRF) along with the certificate to DP (Depository Participant). DP submits the DRF and share certificates to the issuing company and intimates the depository. The company verifies the DRF and share certificates. Then the company confirms the dematerialisation to the depository. Depository informs the same to DP. DP then credits investor's Demat account with the shares. DP sends a statement of account to the investor.

Benefits of Depository Services

Depository services are beneficial because of the following reasons:

1. Sale and purchase of shares and stocks of any company on any stock exchange is facilitated by depository services.
2. Saves time
3. No paperwork.
4. Lower transaction costs
5. Ease in trading
6. Transparency in transactions
7. Physical presence of investor is not required in stock exchange.
8. Risk of loss and mutilation of security certificate is eliminated.